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December 22, 2005

Mr. Gregory A. Steinhoff, Director  
Missouri Department of Economic Development  
Room 680, Truman Building  
Jefferson City, MO 65102

Dear Director Steinhoff:

On behalf of the Missouri Public Service Commission, I am pleased to forward our annual report analyzing the impact of municipally owned and operated cable television and telecommunications systems. As provided in HB 1402, enacted during the 2002 legislative session and signed by Governor Holden, the Commission is required to submit its findings to the General Assembly by December 31 of each year until 2007, when the provisions expire.

In this fourth year of analysis, the Commission identified four Missouri cities offering cable television services to their citizens. The cities reported approximately 9,800 cable subscribers. Although no municipalities offer basic local telephone service, City Utilities of Springfield offers data transmission to area businesses over its fiber network and offers other high capacity point-to-point private line telecommunications services. Nine cities report offering residential and/or business Internet access services to nearly 11,000 subscribers. Please be aware that this data is drawn from survey responses and may not be all-inclusive. A list of non-responsive municipalities is attached to the report. A second request for information has been sent and the report will be updated if additional detailed information is received.

Further details on the Commission's study methods and other related local issues are provided in the report. I hope you find this information helpful. Don't hesitate to contact me at 751-3233 or PSC Utility Operations Division Director, Warren Wood at 751-2978 if you have any questions.

Sincerely,

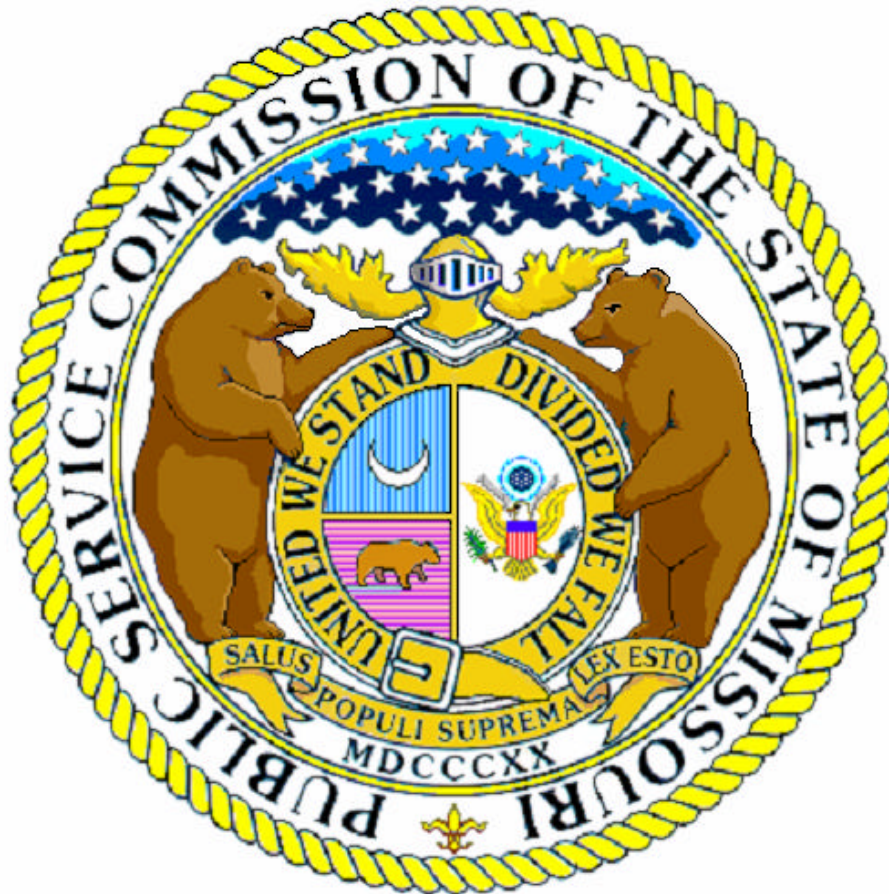
A handwritten signature in black ink, appearing to read "Jeff Davis", is written over a printed name and title.

**Jeff Davis**  
Chairman

JD/nd

C: Members, Senate Committee on Commerce and Environment and House Committee on Communications, Energy and Technology; Commissioners, Governor Blunt, Gregory Steinhoff, Wess Henderson, Robert Boone, John VanEschen, Natelle Dietrich, Walter Cecil, Mike Scheperle, Kevin Kelly, Gregg Ochoa

**Report to the General Assembly of  
The State of Missouri**



*A Study of the Economic Impact of Municipally Owned and/or  
Operated Cable Television or Telecommunications Systems*

**Missouri Public Service Commission  
December 31, 2005**

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## **Executive Summary**

Thirteen cities in Missouri were identified through questionnaire responses as offering cable television, telecommunications services, internet services or a combination of these services to the public through systems owned, operated or under the municipality's control. Although not required to provide data and an analysis of internet services, the Commission included this data since many of the responding municipalities provide internet access. Four cities offer cable television service and have approximately 9,800 subscribers<sup>1</sup>; nine cities offer residential and/or business Internet access services to nearly 11,000 subscribers and the City of Poplar Bluff offers both cable television and Internet access services<sup>2</sup>. City Utilities of Springfield offers data transmission to area businesses over its fiber network and other high capacity point-to-point private line telecommunications services but does not offer basic local telecommunications service. The reported 2005 revenues received by those cities providing cable television and Internet access services revenues total approximately \$5,923,000. Municipalities cite several reasons for initiating cable television or Internet services, most notably, the desire for economic development and the lack of existing service or poor quality service. A map identifying the locations of the cities providing cable television, telecommunications and Internet access services is attached as Appendix 1.

## **Background**

Effective August 28, 2002, the Missouri General Assembly passed, and the governor signed, CCS/SCS/HCS/HB 1402<sup>3</sup> to provide, in part, certain guidelines and standards by which municipalities and political subdivisions may own and operate cable television or telecommunications facilities and services. Pursuant to that bill, the legislature directed the Missouri Public Service Commission (PSC) to perform an annual economic impact study of the effects of municipally owned cable television systems and telecommunications networks. The PSC is to submit a report of the results of that study to the General Assembly by December 31 of each year through December 2006.

CCS/SCS/HCS/HB 1402 repealed certain sections of the Missouri Revised Statutes and enacted new sections. Specifically:

Section 71.970 states, in part:

1. Municipalities may own and operate cable television facilities on a nondiscriminatory, competitively neutral basis, and at a price which covers cost,

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<sup>1</sup> The cities of Newburg, Poplar Bluff, Kahoka and Unionville offer cable television services.

<sup>2</sup> The cities of Carthage, Chillicothe, Grant City, Macon, Marshall, Paris, Poplar Bluff, Sikeston, Springfield and Vandalia offer Internet access services. The City of Poplar Bluff is providing both cable television and Internet access services over the same facilities.

<sup>3</sup> Sections 71.970 and 392.410 RSMO 2000 which CCS/SCS/HCS/HB 1402 modified, were found constitutional by the U. S. Supreme Court on March 24, 2004, in *Nixon v. Missouri Municipal League*, 541 U.S. 125 (2004).

- including imputed costs that the political subdivision would incur if it were a for-profit business. No municipality may own or operate cable television facilities and services unless approved by a vote of the people. This section shall apply only to municipalities that acquire or construct cable television facilities and services after August 28, 2002.
2. The public service commission shall annually study the economic impact of the provisions of this section and prepare and submit a report to the general assembly by December 31st of each year.
  3. The provisions of this section shall terminate on August 28, 2007.

Section 392.410 states, in part:

7. No political subdivision of this state shall provide or offer for sale, either to the public or to a telecommunications provider, a telecommunications service or telecommunications facility used to provide a telecommunications service for which a certificate of service authority is required pursuant to this section. Nothing in this subsection shall be construed to restrict a political subdivision from allowing the nondiscriminatory use of its rights-of-way including its poles, conduits, ducts and similar support structures by telecommunications providers or from providing to telecommunications providers, within the geographic area in which it lawfully operates as a municipal utility, telecommunications services or telecommunications facilities on a nondiscriminatory, competitively-neutral basis, and at a price which covers cost, including imputed costs that the political subdivision would incur if it were a for-profit business. Nothing in this subsection shall restrict a political subdivision from providing telecommunications services or facilities:
  - (1) For its own use;
  - (2) For 911, E-911 or other emergency services;
  - (3) For medical or educational purposes;
  - (4) To students by an educational institution; or
  - (5) Internet services.

The provisions of this subsection shall expire on August 28, 2007.

8. The Public Service Commission shall annually study the economic impact of the provisions of this section and prepare and submit a report to the general assembly by December 31st of each year.

In accordance with these directives, the PSC's Telecommunications Department Staff surveyed 640 municipalities to assist in the data collection process for the economic impact analysis for calendar year 2005.

## **Procedure**

To conduct the 2005 survey, the Commission Staff used two questionnaires: a brief screening questionnaire intended to identify those municipalities providing cable television, telephone and/or Internet services, followed by a detailed questionnaire seeking information covering a variety of topics ranging from revenues and costs to more detailed explanations of services offered. Neither questionnaire has changed materially since 2003.

The first questionnaire was mailed during the week of June 13, 2005, to 640 municipalities and was intended to determine which municipalities offered telecommunications, cable television, and/or Internet access services. A response date of July 15, 2005, was requested. Results were submitted electronically through the Commission's website, by mail, electronic mail, telephone, and fax. The Commission received responses to this survey as late as November 4, 2005. Of the 407 responses, four municipalities indicated they were providers of cable television services, one indicated it was providing telecommunications services, but not basic local services and ten indicated they were actively providing Internet or Internet access services. While these numbers are reported individually for each type of service, some cities offer both telecom and Internet and others offer both cable and Internet.

On August 25, 2005, the Commission mailed the second questionnaire to municipalities indicating, through the first questionnaire, that they were offering cable television, telecommunications and/or Internet access services. The municipalities included Carthage, Chillicothe, Grant, Kahoka, Macon, Marshall, Newburg, Osceola, Paris, Poplar Bluff, Sikeston, Springfield, Unionville and Vandalia.

The second questionnaire asked questions focused on each municipality and the services it offered. There were three versions of the second survey: cable television, telecommunications, and Internet access. Several questions were historical in nature and covered the years 1999 to 2005.

Two hundred thirty-three municipalities did not respond to the Commission's initial questionnaire and one municipality did not respond to the Commission's second questionnaire. Since the data contained in this report is based on the information provided in the survey responses, it may not provide a complete description of the economic impact of municipalities owned or operated cable television or telecommunications systems throughout the state. A list of non-responsive cities is included in Appendix II. A second request for feedback was mailed to each non-responsive city. The Commission will supplement this report if more detailed information is received.

## Overview of Responses of Municipalities Offering Services to the Public

### Cable Television Services

The municipalities identified in the following table have reported offering cable television services. Two of the four municipalities indicated there is no active cable competitor in their service territories. Of the other two, one indicated the presence of a competitor within its service area but outside the city limits and the other indicated the presence of a competitor to which it is selling its operation. All responding municipalities indicated satellite broadcasted television programming services are available.

### Cable Television Providers

Municipality	Population Estimate <sup>4</sup>	Competitive Cable Television Services Provider	Cable Provision Commenced
Newburg <sup>5</sup>	484	Cable America	1982
Kahoka	2,241	None	1992
Unionville	2,046	None	1993
Poplar Bluff <sup>6</sup>	16,651	Boycom Cablevision, Inc. <sup>7</sup>	2001

### Cable-Specific Responses Indicated

- Four cities offer cable television services.
- The earliest such services were offered was in 1982.
- The cities collectively serve approximately 9,800 subscribers.
- 2005 cable television revenues are not available for all responders. However, information provided to the Commission indicates cable television revenues are at least \$3,109,000 which is about 5% more than that reported in 2004.
- These services are or were provided by the municipalities or municipal utilities in response to the lack of services, the poor quality of service provided by an existing firm or because of a demand for specific service packages which were not available from other sources.
- The municipalities purchased facilities from existing private firms, built a network from the ground up or purchased existing facilities and built new facilities.
- Municipalities have identified 14.5 jobs were created or expanded to provide and support cable television services.
- Three municipalities reported revenues exceeding costs and one reported revenue less than cost.

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<sup>4</sup> 2000 Census

<sup>5</sup> Newburg indicates it is selling its network to a private firm, Cable America.

<sup>6</sup> Poplar Bluff provides both cable television services and Internet access services over the same facilities.

<sup>7</sup> Poplar Bluff indicates Boycom Cablevision provides service outside the city's limits.

- No municipalities have indicated a tax revenue impact by providing cable television services.
- All four municipalities indicate their cable television service is operated as a part of city government or the municipally operated utility department.
- Newburg indicates it is selling its cable system to Cable America.

### **Telecommunications and/or Internet Access Services**

City Utilities of Springfield provides private line, point-to-point high volume telecommunications service for large commercial end-users; however, no Missouri municipalities surveyed indicated they are providing basic local telephone services.

Research has revealed 10 municipalities provide some form of data transmission or access to the Internet using municipally owned or municipal-utility owned facilities. Some responding municipalities are offering high speed and/or dial-up Internet services while others are using wireless technologies and a few are using both. Many of these municipalities are offering their citizens access to high speed Internet because it is otherwise unavailable.

### **Internet Access and Telecommunications Services Providers**

<b>Municipality</b>	<b>Population Estimate<sup>8</sup></b>	<b>Incumbent Basic Local Telecommunications Provider</b>	<b>Year Commenced Telecom/Internet Access</b>
Carthage	12,668	Southwestern Bell Telephone Co.	2000
Chillicothe	8,968	Southwestern Bell Telephone Co	2000
Grant City	926	Alltel Communications, Inc.	2005
Macon	5,538	CenturyTel of Missouri, LLC	2001
Marshall	12,433	Southwestern Bell Telephone Co	2002
Paris	1,529	Spectra Communications Group	2002
Poplar Bluff	16,651	Southwestern Bell Telephone Co	2002
Sikeston	16,992	Southwestern Bell Telephone Co	1999
Springfield	151,580	Southwestern Bell Telephone Co	1998
Vandalia	2,529	Alltel Communications, Inc.	2004

### **Telecommunications/Internet Access-Specific Responses Indicated**

- No cities offer basic local telephone service.
- City Utilities of Springfield offers high capacity, point-to-point private line telecommunications services to large commercial end-users; and,
- City Utilities of Springfield offers a wide range of commercial data transmission services, leases dark fiber, and provides internal voice transmission between municipal offices.

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<sup>8</sup> 2000 Census



- Ten cities currently offer residential and/or business Internet access services and one city plans to offer this service sometime in 2006.
- Residential and business Internet services include dial-up, high speed Internet access, and wireless Internet access at speeds varying from 56k to 2 Mbps and at prices varying from \$15.00 to \$79.95 per month. Business-to-business services speeds of as much as 10 Gigabits per second are available.
- The telecommunications and Internet access services are provided by the municipality as a response to poor quality-of-service provided by an existing firm, because no firm was offering or planned to offer the municipally provided service or to provide an alternative or an enhanced alternative to an existing firm's service.
- Macon indicates that when it began offering Internet access services in 2001 the service was not available from any other provider. Now, there are three firms offering Internet access services and, as a result of competitive Internet access services, Macon only provides Internet Access services over dial-up (telephone company) facilities similar to America Online (AOL) or EarthLink.
- Municipalities have identified 12 positions dedicated to providing or supporting Internet and data services. One municipality indicates its utility employees also perform Internet support on an as-needed basis; these employees are not included in the 12 identified positions.
- Five municipalities have reported revenues exceeding costs and two municipalities reported less revenue than cost. One respondent indicated revenue exceeds cost on a cash basis.
- Seven municipalities have indicated no tax revenue impact by providing Internet services. One municipality reports a 5% tax on these services.
- Reporting municipalities indicate approximately \$1,155,000 has been invested in facilities for Internet access<sup>9</sup>. Not all municipalities responded to this question, consequently this amount should be considered a conservative minimum. Reporting municipalities indicate plans to invest \$795,000 in the next year.
- Municipalities indicate their Internet services are either operated as a part of city government or as a division within their municipal utility.

### **The Commission's Observations**

The City of Newburg indicates it is selling its cable television operations in the near future. The city indicates it has an analog system and that upgrading to current technology is more expensive than its small operation can afford. Newburg was the first small rural municipality to offer cable television to its residents and did so because there was no commercial provider interested in offering those services even though there was demand. City staff indicates the buyer, Cable America, is also a current competitor.

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<sup>9</sup> The City of Poplar Bluff operates its Internet access services in conjunction with its cable television services. Many of its Internet survey responses are largely indistinguishable from its cable television responses; consequently, those Internet access responses have been combined with and attributed to the underlying cable operations.

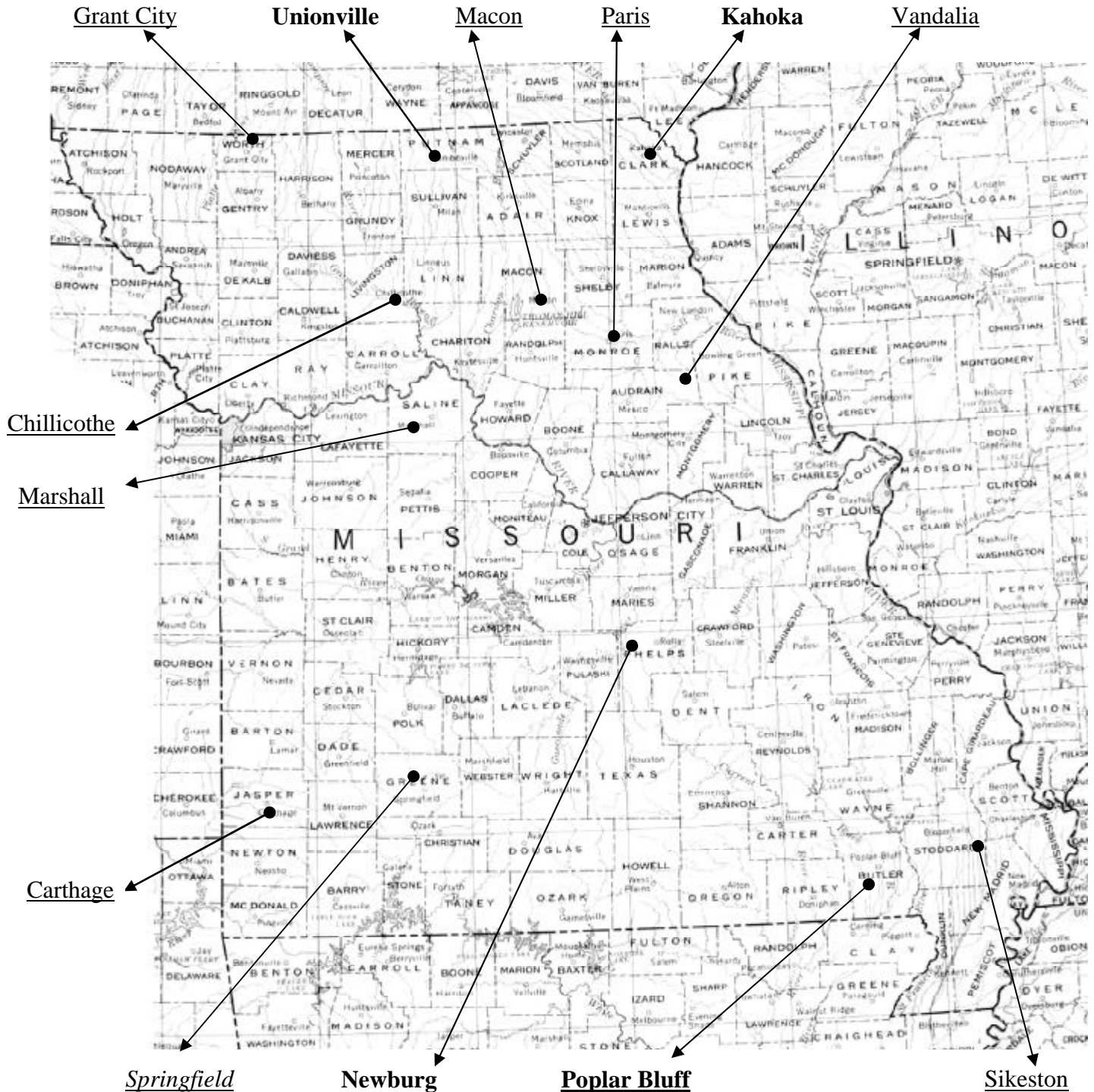
There is a concern among the small-town respondents that Internet services should be made or continue to be made available to their citizens and that those services should be reasonably priced. One respondent said that there were previously no firms providing Internet access services and now there are multiple providers for those services. In one case, the city indicated its existing provider was planning to cease offering Internet services, so the city responded by providing those services. In another case, the city asked the local provider to expand its service package, but the provider indicated it was not interested, the city began offering the service and now there are multiple providers in that municipality as well. Vandalia began providing services within the last year because no private firm was offering services there.

With respect to those respondents indicating no private Internet service was available, when asked why the cities took the initiative to provide the services, the response was, "There was a demand for it". The cities also indicate that having high-quality and low, reasonably-priced Internet access services available are a necessity to maintain the city's economic growth.

The Commission's observations are supported by information gathered from questionnaire responses, follow-up correspondence, and conversations.

- There is a reported demand for higher speed data transmission capabilities and competitive access to the Internet in the rural areas in the state.
- The smaller towns and cities are willing to utilize municipal assets to provide high-speed access to the Internet.
- Some cities view the provision of data transmission services as a means of increasing revenues.
- Smaller towns and cities will provide data transmission services if private providers are unwilling to do so or do so poorly. They are also willing to provide alternative means of access to the Internet to establish some means of competitive price control.
- Private firms are entering markets where municipalities demonstrate demand for and profitability of such services.
- No cities are offering basic local telephone service to the public.

**Appendix I**  
**Municipalities Offering Cable Television, Telecommunications or**  
**Internet Access Services to the Public**



Underlined names indicate Internet Access Provider.  
**Bolded names indicate Cable Television Services Provider.**  
*Italicized names indicate Telecommunications Services Provider.*

**APPENDIX II**  
**NON-RESPONSIVE CITIES QUERIED FOR CABLE TELEVISION,**  
**TELEPHONY, AND INTERNET ACTIVITY**  
**2005**

Albany	Clarkson Valley	Fremont Hills	Lone Jack
Alexandria	Clarksville	Galt	Louisburg
Anderson	Claycomo	Gasconade	Lowry City
Arcadia	Clayton	Gilliam	Madison
Archie	Cleveland	Ginger Blue	Maplewood
Auxvasse	Clever	Gladstone	Marionville
Ava	Clifton Hill	Glenaire	Marquand
Avondale	Climax Springs	Gower	Marshfield
Ballwin	Cole Camp	Grain Valley	Marston
Bella Villa	Concordia	Grandin	Maryland Heights
Belle	Cool Valley	Greenwood	Maryville
Bellefontaine Neighbors	Cowgill	Hardin	McCord Bend
Bel-Ridge	Crestwood	Hayti Heights	Mercer
Belton	Crystal Lakes	Hazelwood	Miller
Benton	Cuba	Highlandville	Moberly
Berger	Curryville	Hillsboro	Montgomery
Berkeley	Dardenne Prairie	Hillsdale	Morehouse
Bethel	Dearborn	Holcomb	Morley
Beverly Hills	Des Peres	Hollister	Mosby
Birch Tree	Desloge	Hornersville	Mount Vernon
Bismarck	Diggins	Houston	New London
Black Jack	Dixon	Huntsville	New Melle
Blue Springs	Duenweg	Hurdland	Newark
Bogard	Duquesne	Independence	Nixa
Bonne Terre	Eagleville	Innsbrook	Novinger
Branson West	East Lynne	Jasper	Oakview
Breckenridge	East Prairie	Kearney	O'Fallon
Breckenridge Hills	Edgar Springs	Kingston	Olivette
Brentwood	El Dorado Springs	Koshkonong	Olympian Village
Brookfield	Ellington	La Grange	Park Hills
Brookline	Ellsinore	Laddonia	Parkville
Buffalo	Emma	Ladue	Parma
Bunker	Excelsior Estates	Lake Lafayette	Pasadena Hills
Burlington Junction	Excelsior Springs	Lake Tapawingo	Peculiar
Butler	Fair Play	Lanagan	Perry
Byrnes Mill	Fenton	Lathrop	Pilot Grove
California	Ferguson	Lawson	Pilot Knob
Campbell	Ferrelview	Leasburg	Pleasant Hill
Cardwell	Flordell Hills	Lebanon	Pleasant Hope
Carterville	Florissant	Leeton	Pleasant Valley
Caruthersville	Fordland	Levasy	Potosi
Cassville	Foristell	Lexington	Purcell
Charlack	Four Seasons	Liberty	Purdy
Clarence	Fredericktown	Lincoln	Puxico
Clarksdale	Freeburg	Linn	Randolph

**APPENDIX II**  
**NON-RESPONSIVE CITIES QUERIED FOR CABLE TELEVISION,**  
**TELEPHONY, AND INTERNET ACTIVITY**  
**2005**

Raytown	Shelbyville	Strafford	Warsaw
Republic	Sheldon	Sullivan	Washington
Revere	Shrewsbury	Syracuse	Waverly
Rich Hill	Silver Creek	Taneyville	Weatherby Lake
Richmond	Skidmore	Town and Country	Weldon Spring
River Bend	South Greenfield	Trenton	Wellington
Riverside	Sparta	Turney	Wheaton
Rockaway Beach	St. Clair	Unity Village	Wildwood
Rolla	St. John	Urich	Windsor
Rosebud	Stella	Valley Park	Winfield
Saddlebrooke	Stewartsville	Van Buren	Wood Heights
Salem	Stockton	Vandiver	
Scott City	Stotts City	Velda Village Hills	
Seymour	Stover	Vinita Park	

Total Non-responsive to  
Screening Survey: 233

Non-Responsive to  
Detailed Survey: City of  
Kennet